

## Message Text

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TO USMISSION OECD PARIS PRIORITY

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E.O. 11652: N/A

TAGS: SENV; OECD

SUBJECT: MEETING OF OECD GROUP OF ECONOMIC EXPERTS,  
MAY 3-5, 1976

REF: POTIER-DAVIS LETTER OF APRIL 15

1. MISSION IS REQUESTED TO IMMEDIATELY PASS ON FOLLOWING  
GUIDANCE FOR SUBJECT MEETING TO U.S. DELEGATE, WILLIAM  
CAVITT.

2. RE NEW AGENDA ITEM ON FLUOROCARBONS WORK PLAN, THE  
AREAS WHICH REQUIRE FURTHER CLARIFICATION AND DISCUSSION  
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ARE (1) SPECIFIC DATA GATHERING AND ANALYTICAL

TASKS CONTAINED IN DRAFT WORK SCOPE ATTACHED TO POTIER LETTER; (2) ROLE OF GROUP OF ECONOMIC EXPERTS IN THE STUDY AND (3) DISTINCTION BETWEEN ANALYSIS REQUIRED FOR UNILATERAL V. MULTILATERAL ACTIONS (TASKS (IV) AND (V) IN WORK SCOPE). DETAILS FOR U.S. POSITION ARE PROVIDED BELOW

3. SPECIFIC TASKS. MANY OF THE TASKS ENVISIONED IN THE DRAFT WORK SCOPE CAN BE REDUCED IN EFFORT BY MAKING USE OF THE U.S. STUDIES (BY A.D. LITTLE AND MIDWEST RESEARCH INSTITUTE). COPIES OF THESE STUDIES

FOR OECD USE WILL BE TRANSMITTED SHORTLY. SPECIFICALLY, REFERRING TO THE DRAFT WORK SCOPE, SECTION II, PAGE 3:

TASK (I): LITTLE USE COULD BE MADE OF THE U.S. STUDIES; MOST OF THIS WORK WOULD HAVE TO BE REPEATED FOR EACH COUNTRY.

TASK (II): A GREAT DEAL OF THIS E.G.: CONTROL OPTIONS, AND POSSIBLE SUBSTITUTES FOR F.11 AND F. 12 HAS BEEN DONE IN THE U.S. STUDIES AND IS TRANSFERABLE TO THE WORK OF OTHER COUNTRIES. EXTENSION OF THE U.S. STUDIES WOULD BE TO PERFORM AN IN-DEPTH SURVEY ON CONSUMER PREFERENCES AMONG FLUOROCARBON ALTERNATIVES.

TASK (III): THE BASIC FRAMEWORK FOR THIS TASK CAN BE TAKEN FROM THE U.S. STUDIES, E.G., INDUSTRY SECTORS LIKELY TO BE IMPACTED AND THE INTERDEPENDENCIES BETWEEN INDUSTRIES. THE DETERMINATION OF THE ACTUAL NUMBERS OF PLANTS, EMPLOYEES, ETC. IN EACH COUNTRY WOULD HAVE TO BE ESTIMATED ON A COUNTRY-BY-COUNTRY BASIS.

TASK (IV): THE DRAWING UP OF A TYPOLOGY OF IMPACTS FOR EACH INDUSTRY SECTOR COULD BE TAKEN FROM THE U.S. STUDY AS FAR AS "RELATIVE ORDERS OF IMPACTS" (I.E., WHICH INDUSTRIES WILL BE MOST IMPACTED AND HOW) ARE CONCERNED. OBVIOUSLY, ABSOLUTE LEVELS OF IMPACTS WOULD HAVE TO BE MADE ON A COUNTRY-BY-COUNTRY BASIS. IN THE CASE OF AN ALTERNATIVE INVOLVING TAXES ON AEROSOLS, THE U.S. REPORT UNCLASSIFIED

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MAY BE OF LITTLE HELP.

TASK (V): THE QUESTION OF MULTILATERAL ACTION VS.

UNILATERAL ACTION IS CONFUSING. SEE BELOW.

4. OECD ROLE. IT ISN'T CLEAR FROM THE WORK SCOPE WHAT ROLE THE OECD WILL TAKE IN THIS EFFORT. IT DOESN'T SEEM REASONABLE FOR THE SECRETARIAT TO CONDUCT THE ACTUAL

IMPACT ASSESSMENTS SINCE THIS REQUIRES COUNTRY-BY-COUNTRY DATA AND ANALYSIS. A MORE REASONABLE FUNCTION MIGHT BE:

(A) PREPARE A GENERAL METHODOLOGY AND WORK SCOPE THAT COULD BE USED FOR ALL COUNTRIES;

(B) PREPARE A BACKGROUND DOCUMENT FOR MEMBER COUNTRY USE. THIS WOULD CONSIST OF THE GENERIC DATA AND ANALYSIS

AVAILABLE IN THE U.S. STUDIES AS DISCUSSED ABOVE;

(C) POSSIBLY ESTIMATE IMPACTS FOR INDIVIDUAL COUNTRIES PROVIDING THE MEMBER COUNTRIES PROVIDE THE NECESSARY DATA INFORMATION;

(D) COLLECT, SUMMARIZE, ETC. IMPACT ANALYSIS FOR INDIVIDUAL COUNTRIES.

5. UNILATERAL VS. MULTILATERAL ACTIONS. IT SEEMS THAT WHETHER THE QUESTION IS ONE OF UNILATERAL OR MULTILATERAL ACTION, THE ANALYSIS STILL MUST BE DONE ON A COUNTRY-BY-COUNTRY BASIS,

WITH DIFFERING ASSUMPTIONS ABOUT THE TYPES OF CONSTRAINTS BEING PLACED ON THE SUPPLY AND USE OF FLUOROCARBONS.

6. POLLUTION CHARGES - ITEM 4(I), ENV/ECO/76.1: THIS DOCUMENT IS MORE OPTIMISTIC TOWARDS CHARGES THAN SEEMS JUSTIFIED BY EXPERIENCE; HOWEVER IT CREATES NO SERIOUS PROBLEM FOR THE U.S. AND CAN BE APPROVED AS IT NOW STANDS.

7. FINANCIAL ASSISTANCE TO NEW PLANTS: THIS REPORT IS MOSTLY TECHNICAL IN NATURE BUT HAS SECTIONS THAT MAY UNCLASSIFIED

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RELATE TO POLICIES OF INTEREST TO THE U.S. THE MAIN IMPLICATION IS THAT ASSISTANCE TO NEW PLANTS MAY BE JUSTIFIED IN SOME CASES FOR THE SAKE OF ECONOMIC EFFICIENCY. FOR EXAMPLE, IF AN INDUSTRY HAS STANDARDS SUCH THAT THE MARGINAL COST OF CONTROL FOR OLD PLANTS IS EQUAL TO THAT FOR NEW PLANTS AN ECONOMIC ASSISTANCE TO OLD PLANTS SHOULD BE EQUALED WITH ASSISTANCE TO NEW PLANTS. THIS ARGUMENT IS VERY TECHNICAL AND BASICALLY IS NOT IN

CONFLICT WITH U.S. POLICY. HOWEVER, THE STUDY DOES NOT IN ANY WAY JUSTIFY WIDESCALE SUBSIDIZATION OF NEW PLANTS AND SUCH CONCLUSIONS SHOULD BE GUARDED AGAINST.

8. SWEDISH EXPERIENCE - ITEM 4 (IV), ENV/FIO/76.5: THIS REPORT EXAMINES THE EFFECTS OF POLLUTION CONTROL INVEST-

MENT SUBSIDIES. THE FINDINGS ARE NOT UNLIKE THOSE  
FOUND IN THE U.S. EXPERIENCE -- SEE PAGES 24-26 OF THE

REPORT. THE IMPORTANT LESSONS SEEM TO BE:

(A) THE EMPLOYMENT EFFECTS OF SUBSIDIES ARE POSITIVE  
BUT SHORT TERM. THE LONG TERM EMPLOYMENT EFFECTS MAY  
BE NEGATIVE.

(B) SUBSIDIES CAN DISTORT THE ANNUAL MARKET MECHANISM  
IN UNDESIRABLE WAYS (NOTE BOTTOM OF PAGE 25). WHILE  
SUBSIDIES STILL MAY BE DESIRABLE IT IS IMPORTANT TO BE  
FULLY AWARE OF THE POSSIBLE SIDE EFFECTS BEFORE USING  
THEM.

9. MACROECONOMIC EVALUATION - ITEM 6(I), ENV/ECO/76.2:  
THIS DOCUMENT IS MOSTLY TECHNICAL IN NATURE AND IS ACCEPT-  
ABLE TO THE U.S. THE MAIN POLICY CONCERN SHOULD BE WITH  
THE SUGGESTED USES OF MACROECONOMIC ANALYSIS AND THE  
IMPLICATION THAT ENVIRONMENTAL POLICIES CAN BE USED AS  
ANTI-CYCLICAL MEASURES (SEE PARAGRAPH 30 ON PAGE 15).  
THE PROBLEM IN THIS CASE IS VERY SUBTLE. IT IS TRUE THAT  
ENVIRONMENTAL EXPENDITURES STIMULATE ECONOMIC ACTIVITY  
IN THE SHORT TERM, AND AS SUCH CAN HELP TO COUNTERACT  
RECESSIONARY FORCES. THE REVERSE ALSO IS TRUE REGARDING  
INFLATIONARY FORCES. AS SUCH, IT IS REASONABLE TO SUGGEST  
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THAT ENVIRONMENTAL POLICIES SHOULD BE PHASED SO AS TO  
MINIMIZE DISRUPTIONS TO THE ECONOMY (I.E., TO SLOW DOWN  
EXPENDITURES IN INFLATIONARY PERIODS AND SPEED THEM UP  
IN RECESSIONARY PERIODS.) THE DANGER LIES IN TRYING TO  
JUSTIFY THE LEVEL OF ENVIRONMENTAL EXPENDITURES SIMPLY  
ON THE BASIS OF THEIR ECONOMIC EFFECTS. THE JUSTIFICA-  
TION FOR SUCH EXPENDITURES SHOULD BE ENVIRONMENTALLY  
BASED. ONLY THE TIMING OF EXPENDITURES SHOULD BE AFFECTED  
BY RECESSIONARY AND INFLATIONARY CONCERNS.

10. POLLUTION CONTROL EXPENDITURES IN GERMANY - ITEM 6(II)  
ENV/RVO/76.7: THIS REPORT IS PRIMARILY TECHNICAL IN NATURE  
IN THE FASHION OF THE STUDIES DISCUSSED IN ENV/ECO/76.2.  
IT IS ACCEPTABLE TO THE U.S. IN ITS CURRENT FORM. SISCO

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